




Office of the City Manager

CONSENT CALENDAR  
February 28, 2017

To: Honorable Mayor and Members of the City Council

From:  Dee Williams-Ridley, City Manager

Submitted by: Paul Buddenhagen, Director, Health, Housing & Community Services Department

Subject: Grayson Street Apartments: Extension of Current Reservation and Use of Alameda County A1 Housing Bond Funds

RECOMMENDATION

Adopt a Resolution:

- 1) Extending the term of the existing reservation of \$1.4 million in Housing Trust Funds for Grayson Street Apartments and making it contingent upon Satellite Affordable Housing Associates (SAHA) securing its remaining financing commitments by December 31, 2017; and
- 2) Ratifying the City Manager's pre-commitment of \$691,394 in Alameda County A1 Housing Bond funds for Grayson Street Apartments; and
- 3) Authorizing the City Manager to execute all original or amended documents or agreements to effectuate these actions.

FISCAL IMPACTS OF RECOMMENDATION

The reservation of \$1.4 million has been set aside within the Housing Trust Fund since January 2016 through June 1, 2017, and has not been included in recent calculations of available funds. Affordable Housing Mitigation funds (budget code 249-8151-463-9922) in the amount of approximately \$550,000 and HOME funds (budget code 040-8151-463-9922) in the amount of approximately \$850,000 will be added as part of the Second Amendment to the FY 2017 Annual Appropriations Ordinance.

CURRENT SITUATION AND ITS EFFECTS

SAHA is pursuing the final piece of its financing package for Grayson Street Apartments: state and federal 4% tax credits. Tax credit applications are due March 1, 2017 with awards anticipated in June 2017. In 2016, the City reserved \$1.4 million in Housing Trust Funds for Grayson, and made the reservation contingent upon SAHA securing the remainder of the project's funding by June 1, 2017 (City Council Resolution No. 67,774-N.S.), based on timeline projections at that time, a deadline that SAHA will not be able to meet. Staff recommend extending the funding reservation and making it

contingent upon SAHA securing the remainder of Grayson's financing by the end of the calendar year.

Low income housing tax credits have been a planned part of Grayson's financing package from the beginning, but recent volatility in the tax credit market contributed to a funding gap of \$691,394 at Grayson that needs to be addressed before the March 1 deadline. The Housing Advisory Commission voted to recommend the use of a portion of the City's set-aside of Alameda County A1 Housing Bond funds to fill this gap at its February 2 meeting. (M/S/C: Crandall/Harrison. Ayes: Crandall, Harrison, Lord, Martinucci, Schwartz (substitute for Johnson), Slaughter, and Tregub. Noes: None. Abstain: None. Absent: Johnson (excused). Recused: Wolfe.) On February 3, the City Manager approved the County's use of these bond funds for Grayson. The Alameda County Board of Supervisors is expected to approve the A1 Housing Bond funding reservation at their February 21, 2017 meeting.

Affordable housing tax credit programs work by having corporate investors purchase tax credits with the proceeds funding development. Investors have been paying prices over \$1.10 per dollar of tax credit in the Bay Area in recent years. However, since the presidential election, the low income tax credit market has been very volatile, with corporate investors paying rapidly decreasing prices and even pulling out of projects entirely in anticipation of substantially reduced taxes under the Trump administration's proposed tax reforms. In addition, Bay Area construction costs have continued to rise. The combination of tax credit prices dropping and construction costs rising has created the funding gap.

#### BACKGROUND

Grayson is a permitted, 23-unit mixed-use development that, when built, will house and provide supportive services to lower income and special needs residents including youth aging out of the foster care system and people living with HIV or AIDS.

Other Bay Area affordable housing projects also have funding gaps recently created by changes in the tax credit market. In response, Alameda County created an expedited process to use A1 bond proceeds to assist projects which were fully funded or applying for tax credits in March, consistent with voter interest in the bond funds having an immediate impact. Berkeley's share of the A1 bond funds is \$15,796,369.

Berkeley Housing Authority awarded 17 project-based Section 8 vouchers to Grayson in December 2016. SAHA will leverage the vouchers into a permanent loan. SAHA initially thought this loan would buffer the budget against reductions in tax credit pricing, but as pricing has continued to drop, it does not appear that it will be enough.

SAHA first applied for funding for Grayson in response to the City's 2010 Notice of Funding Availability. In 2012, the City reserved \$1,095,000 for Grayson for acquisition and development costs. SAHA acquired the site in 2013, and since then has been working on the project's design and securing construction and permanent funding.

SAHA requested an additional \$1 million for Grayson in response to the City's 2015 Request for Proposals. Staff evaluated SAHA's application, but the City did not fund Grayson at that time because of timing concerns with the City's expiring federal HOME funds.

At its January 26, 2016 meeting, City Council approved Resolution No. 67,360-N.S. authorizing a \$1.4 million reservation of Housing Trust Funds for Grayson Street Apartments in order to increase the project's competitiveness for Affordable Housing and Sustainable Communities (AHSC, formerly known as Cap and Trade) funds. The reservation was contingent upon SAHA securing the remainder of the project's financing by December 31, 2016. SAHA was awarded \$3.7 million in AHSC funds by the State in October 2016. At its December 13, 2016 meeting, City Council extended the \$1.4 million reservation until June 1, 2017 with Resolution No. 67,774-N.S. to allow enough time for the 4% tax credit application. Because SAHA will also apply for state housing tax credits, the next possible application date is March 1.

The California Tax Credit Allocation Committee has two funding rounds per year (one in March and one in June), but it is critical that SAHA apply for funds in this first round. Grayson has an Infill Infrastructure Grant from the State's Prop 1C funds, which has a firm disbursement deadline of October 2017. If construction has not started and the funds have not been disbursed by that time, the project will lose \$1 million.

#### ENVIRONMENTAL SUSTAINABILITY

There are no environmental sustainability effects from extending the existing funding reservation.

#### RATIONALE FOR RECOMMENDATION

SAHA will not have completed Grayson's financing package by June 1 2017, due to the timing of the tax credit application and award.

#### ALTERNATIVE ACTIONS CONSIDERED

The City could allow the reservation of funds to expire, which would stop the project moving forward. This is counter to the City's goal of addressing the housing crisis and not recommended.

#### CONTACT PERSON

Jenny Wyant, Community Development Project Coordinator, HHCS, 510-981-5228

#### Attachments:

1: Resolution

RESOLUTION NO. ##,###-N.S.

APPROVAL OF RESERVATION OF ADDITIONAL FUNDS AND EXTENSION OF EXISTING RESERVATION OF FUNDS FOR GRAYSON STREET APARTMENTS

WHEREAS, the City Council established a Housing Trust Fund Program (HTF) to assist in the development and expansion of housing affordable to low and moderate income persons who either work or reside within the City of Berkeley, and authorized the City Manager to implement the Program; and

WHEREAS, there is a great need for affordable and special needs housing in the City of Berkeley, as stated in the General Plan Housing Element and the City of Berkeley's Consolidated Plan; and

WHEREAS, the City and Satellite Affordable Housing Associates (SAHA) entered into a development loan agreement on July 11, 2013 for the acquisition and development of Grayson Street Apartments (Grayson) (Contract No. 9394) as authorized by Resolution No. 65,962 adopted on December 11, 2012; and

WHEREAS, SAHA acquired the development site on July 26, 2013, and continues to seek permanent financing for the project; and

WHEREAS, on January 26, 2016, the City Council authorized Resolution No. 67,360, approving a reservation of \$1.4 million for Grayson, conditioned on SAHA's ability to secure the remaining project financing by December 31, 2016; and

WHEREAS, in 2016, SAHA secured \$3,755,326 in Affordable Housing and Sustainable Communities funds and was awarded 17 Project Based Section 8 Vouchers, but was unable to complete its financing; and

WHEREAS, on December 13, 2016, the City Council authorized Resolution No. 67,774, approving an extension of the \$1.4 million reservation to June 1, 2017; and

WHEREAS, SAHA is pursuing 4% state and federal tax credits through a competitive process to finance Grayson and the tax credits will not be awarded until after June 1, 2017; and

WHEREAS, SAHA needs to resolve a \$691,394 financing gap in Grayson's budget caused by tax credit market volatility and rising construction costs before the tax credit application deadline of March 1; and

WHEREAS, Alameda County has created an expedited process for awarding County A1 Housing Bond funds to Grayson and other projects experiencing financing gaps; and

WHEREAS, the Housing Advisory Commission recommended and the City Manager pre-committed a \$691,394 allocation of A1 bond funds for Grayson.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it:

- Approves an extension of the \$1.4 million reservation through December 31, 2017, contingent upon SAHA securing commitments for the remainder of Grayson's financing; and
- Ratifies the City Manager's pre-commitment of \$691,394 in Alameda County A1 Housing Bond funds for Grayson.

BE IT FURTHER RESOLVED that the funding reservation is conditioned upon the completion of the environmental review process, except as authorized by 24 CFR, Part 58, and that should HOME and/or CDBG funds constitute a portion of the funding for any project, a final commitment of HOME and/or CDBG funds shall occur only upon the satisfactory completion of the appropriate level of environmental review and also upon the receipt of approval of the request for release of funds and related certification from the U.S. Department of Housing and Urban Development, when applicable. The funding reservation for any of the HOME and/or CDBG funded projects is conditioned upon the City of Berkeley's determination to proceed with, modify, or cancel the project based on the results of subsequent environmental review under the National Environmental Policy Act.

BE IT FURTHER RESOLVED that the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements, and any amendments will be kept on file in the Office of the City Clerk.

